THE CHURCH AND ECONOMIC ACTIVITIES

The First Economists

The church dominated economic activities for over a thousand years. When it comes to economics, the church therefore was in there first and has been there longest.

The era began around the year 300. In 313 Emperor Constantine was converted to Christianity. Christianity was transformed from being a primitive church - a marginal sect - to becoming the centre of power. In about 320, the Emperor decreed that Christianity had become the official religion of the Roman Empire. Clergy acquired a senior status within the empire. The church, as an arm of the State, became very wealthy.

This transformation of the church had to be reconciled with the church's understanding of its faith.

As William Temple, later Archbishop of Canterbury, explained in one of the standard books this century on Christians and economics:

What now concerns us, however, is that from the very outset Christian faith found for itself social and economic expression. It did not at that stage take the form of a set of principles for the guidance of the State: the primitive church was a handful of people quite unable to influence the Jewish State, let alone the Roman Empire.

But as the church grew it began to develop its own social philosophy. It could not fail to be influenced by the Mosaic legislation, such as the Law of Jubilee (Leviticus 25) which is a piece of land legislation of immense significance, and the prohibition of usury (Leviticus 25 and Deuteronomy 23). The growth of the church led to the need for a statement of social principles for the guidance of its own members while they were a considerable though unrecognized and often persecuted minority, and later, when the church was recognized and became a factor of influence in public life, for the guidance of the State.

The fundamental Biblical principle is that the earth - land - belongs to God: men enjoy the use of it, and this use may be so regulated as to ensure to particular families both security in that enjoyment and exclusive right to it. But this was to be so done as to ensure also that all members of the community shared in the enjoyment of some portion. There was to be no proletariat. There were thus to be rights of property, but they were rights shared by all, and were subject to the over-ruling consideration that God alone had ultimate ownership of the land, the families to whom it was allotted being His stewards. The Law of Jubilee, by which every fifty years alienated land, reverted to its proper family, so that the permanent accumulation of a large estate in a single hand became impossible, rested on this basic principle of divine ownership.

The church confronted dilemmas - as Christians still do - of how to handle their private wealth. Jesus did not endorse the accumulation of wealth. For example, in Matthew 19:21 Jesus gives advice to the rich young man: "If you wish to be perfect, go, sell your possessions, and give your money to the poor, and you will have treasure in heaven; then come follow me". The young man went away very sad because he had many possessions. There is no evidence that the rich young man was gaining or spending his money in inappropriate ways. It is simply that the wealth was getting in the way of his full spiritual development. Wherever your treasure is, there will be your heart also.

There was also the problem of reconciling private enterprise (capitalism) with the need for individuals to see themselves as part of the community.

The US historian, the late Barbara Tuchman, wrote about these problems in the 14th century, as the church's dominant role was being eroded:

Capitalist enterprise, although it held by now a commanding place, violated by its very nature the Christian attitude towards commerce, which was one of active antagonism. It held that money was evil, that according to St Augustine :"Business is in itself an evil", that profit beyond a minimum necessary to support the dealer was avarice, that to make money out of money by charging interest on a loan was the sin of usury, that buying goods wholesale and selling them unchanged at a higher retail price was immoral and condemned by canon law, that, in short, St Jerome's dictum was final: "A man who is a merchant can seldom if ever please God".

An important part of the church's teaching on economics was the concept of the "just price":

This was based on the principle that a craft should supply each man a livelihood and a fair return to all, but no more. Prices should be set at a "just" level, meaning the value of the labour added to the value of the raw material. To ensure that no one gained an advantage over anyone else, commercial law prohibited innovation in tools or techniques, under-selling below a fixed price, working late by artificial light, employing extra apprentices or wife or under-age children, and advertising of wares or praising them to the detriment of others. As restraint on initiative, this was the direct opposite of capitalist enterprise.

Another dilemma was usury - lending money at a rate of interest. The Old Testament did not forbid lending money as such - only making a profit by doing so. As Barbara Tuchman pointed out:

Nothing so vexed medieval thinking, nothing so baffled and eluded settlement; nothing was so great a tangle of irreconcilables as the theory of usury. Society needed money-lending, while Christian doctrine forbade it. That was the basic dichotomy, but the doctrine was so elastic that "even wise men" were unsure of its provisions. For practical purposes, usury was considered to be not the charging of interest per se, but charging at a higher rate than was decent. This was left to the Jews as the necessary dirty work of society, and if they had not been available they would have had to be invented. While theologians and canonists argued endlessly and tried vainly to decide whether 10, 12.5, 15 or 20 per cent was decent, the bankers went on lending and investing at whatever rates the situation would bear.

In short, as in the early Christian communities, the church in the middle Ages saw the Christian not merely as an individual but as part of a community - with rights and duties vis-a-vis that community. As such, the individual was not only to avoid exploiting others but was also expected to help the destitute.

The issues raised at that time continue to haunt us today. American ethicist David Vogel has reviewed business ethics over the centuries and commented upon a similarity in concern over banking and finance between medieval Christian views and those of American economist (and later a member of the Clinton Administration) Robert Reich:

The church, although it frowned upon all forms of money-making, was particularly critical of banking or money lending. It argued that it was wrong for people to be paid back more money than they had lent, since they had not improved their commodity in any way. Gold and silver were essentially "sterile": they represented a convenient way to measure wealth, but they themselves were incapable of adding to the resources available to sustain life. Accordingly, while farmers or craftsmen were entitled to charge for their labours, bankers were not.

This, of course, is precisely why Reich is so critical of the profits earned by Wall Street firms from restructuring the American economy. Reich regards producers of goods and services as the exclusive source of "real" wealth: their profits are legitimate because they derive from their efforts to deploy human and material resources to meet various private and public needs. Those who make their living from buying and selling these companies, however, are in a different moral category: paper entrepreneurs are predators, not creators of value.

To conclude, the church was not only setting down broad principles and detailed laws, but it was also an important economic actor in its own right. Archaeologist Richard Hodges has written that "From an early date the church was almost as economically motivated as the secular hierarchy". The constant raids by Vikings on major British monasteries showed the immense wealth that had been collected by them by the ninth century. The church acquired its wealth from weekly collections and from its own enterprises (such as glass-making, tool-making for farmers and jewellery). It even occasionally issued its own coins.

The Decline of First Wave Government

There was little notion of a "national government" in those days. Lord Sudeley has explained the nature of life in Middle Ages, which was based on the region:

...the local market town with its trade privileges, the parish, and the manor, all flourishing, often with their own particular jurisdictions, owing to the great poverty of communications in the Middle Ages...

Superimposed above the small and particular forms of social organization I have described was the national centre of authority, the monarchy. The power of such a monarchy was, however, emphatically not absolute, like that of the tyrant in Aristotle's Politics or the dictator of a modern totalitarian state. In medieval times the poor character of communications alone sufficed to prevent centralized authority of the Crown from exercising any too detailed scrutiny of all the day to day affairs conducted on any local basis. Added to which, the king really was the servant of his own people. Since his authority was sanctified form above, the king in his exercise of such authority really did serve all who were under him; and it certainly was part of the doctrine of the medieval church, that subjects had a right to rebel against any king who in this way was disobedient to the law of God.

Emperors and kings did not always enjoy a happy relationship with the church. Local rulers resented church leaders having links outside their region back to Rome. There were also demarcation disputes as to what were "religious" and what were "secular" matters and who may decide on what.

The notion of a national government emerged between a sandwiches of forces. At the lower level, local regions were gradually being centralized under kings. At the higher level, kings were shrugging off the influence of Rome as a ruler.

As J L Brierly in his standard book on international law explained:

But just as the state was gradually consolidating its power against the fissiparous tendencies of feudalism within, so it was more and more resisting the division of authority imposed upon it by the church from without; and this latter process culminated in the Reformation, which in one of its most important aspects was a rebellion of the states against the church. It declared the determination of the civil authority to be supreme in its own territory; and it resulted in the decisive defeat of the last rival to the emerging unified national state. Over about half of Western Europe the rebellion was completely and evidently successful; and even in those countries which rejected Protestantism as a religion, the church was so shaken that as a political force it could no longer compete with the state. The Peace of Westphalia, which brought to an end in 1648 the great Thirty Years War of religion, marked the acceptance of the new political order in Europe.

THE RISE OF MARKET ECONOMICS

Mercantilism

Old habits die hard. National governments may have shrugged off much of the church's influence but they liked the church's power.

Monarchs formed alliances with the growing merchant class. The merchants supplied the monarchs with financial support. From the monarchs, the merchants got an end to feudal wars, and there was the consolidation of the state to provide law and order. The monarch also provided special trading privileges (via royal charters) and the monarchs used their defence forces to defend the economic activities of the merchants.

The American economist Joan Edelman Sperd has set out the contribution which mercantilism made to the rise of the Westphalian System. Mercantalism was geared towards the building of strong nation-states:

During the mercantilist period between the fifteenth and eighteenth centuries, two principal political characteristics shaped economic interaction. First was the development of powerful nation-states from the ruins of medieval universalism and local particularise - the emergence of new centralized political units - England, France, Sweden, Prussia, Russia - whose policy goal was the consolidation of power, both internally, vis-a-vis local power structures, and externally, vis-a-vis other states.

Second, in the mercantile political system, there was the competition among these many, nearly equal states. Because power was distributed fairly equally, relatively minor changes could be very important in the overall power position of a state.

But despite the significant competition for power, there were important limits to competition. There was a common political culture, including a consensus on royal legitimacy. There were also limits to state capability. State administration was weak, armies were small and mercenary, and therefore, military and diplomatic objectives were limited.

The impact of the political structure on the economic structure of mercantilism was profound. The economic realm became the main arena for political conflict. The pursuit of state power was carried out through the pursuit of national economic power and wealth; the process of competition, limited by political reality, was translated into economic competition. All international economic transaction was regulated for the purpose of state power.

The theory of mercantilism, then, was that the wealth of the nation depended on its possession of precious metals and so the government had to maximize domestic trade, the foreign trade surplus, foster national commercial interests, a merchant marine fleet, and obtain colonies. Mercantilism initiated the Europeanization of the globe.

However, mercantilism was also very restrictive. It relied on a close relationship between monarchs and merchants - and merchants were often impatient with the speed at which monarchs were willing to change policy.

The creation of "limited corporations" contributed to the erosion of mercantilism. People had been getting together for centuries to work jointly on projects. But the partnership lasted for only as long as those particular people lived or for how long it took to bring the project to fruition. The profit (if any) was split and the organization disappeared.

The "limited corporation" gave a corporation an unlimited life. The liabilities of the members of the corporation were limited only to the amount of money contributed by the partners (notably through shares). The shares could be handed on to a person's descendants or they could be sold (stock exchanges began in the 18th century). The corporation itself outlived the death of its original founders. It was recognized in law as having its own personality and standing, and it was able to undertake a wide range of economic activities.

In due course, the merchants challenged the power of monarchs and then sought to reduce their control. This gave rise to the system of representative democracy followed today in such countries as Australia, the UK and US. People (originally only property-owning white men) elected representatives to the parliament, and the parliament gradually took over the power of the monarch.

New ideas of political freedom and economic individualism needed a new prophet. This was the role of Adam Smith and his 1776 book The Wealth of Nations.

The church was never again to have as much influence over economic thinking as it did for about a thousand years after AD300. The secular economists have dominated economic thinking ever since. But the church's role should not be forgotten.

Keith Suter

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NOTES

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- Barbara Tuchman A Distant Mirror, London: Macmillan, 1979, p 37.
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